

Message Text

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TAGS: ETRD, SP

SUBJECT: SOYBEAN SITUATION
REF: (A) MADRID 3018, (B) MADRID 3731
1. EMBASSY SHOULD APPROACH GOS AT APPROPRIATE LEVEL AND
MAKE FOLLOWING POINTS:

-- USG IS CONCERNED ABOUT RECENT DEVELOPMENTS IN SOYBEAN/
SOY OIL SITUATION, WHICH ARE DISTURBINGLY REMINISCENT
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OF DIFFICULTIES IN 1973/74. AT THAT TIME COMBINATION OF
LOW CEILINGS ON SOYBEAN OIL PRICES, RISING WORLD PRICES
FOR SOYBEANS AND BUDGETARY BURDEN OF LARGE INCREASE IN GOS
SUBSIDIES TO CRUSHERS RESULTED IN INTERRUPTION OF US
SOYBEAN EXPORTS TO SPAIN. SUBSEQUENTLY, GOS INSTITUTED
VARIABLE LEVIES AND OTHER MEASURES, IN VIOLATION OF SPAIN'S
BINDING OF SOYBEAN TARIFF TO U.S.

-- USG CONTINUES TO BELIEVE THAT GOS DOMESTIC MARKETING QUOTA ON SOYBEAN OIL EFFECTIVELY IMPAIRS SOYBEAN TARIFF BINDING AND VIOLATES GATT ARTICLE III, PARAS. 1 AND 5, BY USING INTERNAL QUANTITATIVE RESTRICTIONS TO PROTECT DOMESTIC PRODUCTION OF COMPETITIVE PRODUCTS.

-- AT JANUARY MEETING OF U.S. SPAIN ECONOMIC COMMISSION, GOS ARGUED IT WAS NOT BOUND BY PART II OF GATT (IN PARTICULAR BY ARTICLE III) BECAUSE "GRANDFATHER CLAUSE" IN SPANISH PROTOCOL OF PROVISIONAL APPLICATION (PPA) COVERS LONGSTANDING SPANISH INTERNAL POLICY ON FATS AND OILS.

-- THE USG DOES NOT VIEW THIS AS A MEANINGFUL ARGUMENT UNDER GATT. SPANISH PPA PROVIDES THAT SPAIN "SHALL APPLY PART II OF THE GENERAL AGREEMENT TO THE FULLEST EXTENT NOT INCONSISTENT WITH ITS LEGISLATION EXISTING ON THE DATE OF THIS PROTOCOL (JULY 1, 1963). AS FAR AS WE HAVE BEEN ABLE TO ASCERTAIN, NO SPANISH REGULATIONS OR LAWS REQUIRING SUCH MEASURES WERE ON BOOKS AT THAT TIME. GOS THUS APPEARS TO HAVE SUFFICIENT ADMINISTRATIVE DISCRETION WITH REGARD TO ITS OILS POLICY TO BE CONSIDERED BOUND BY ITS OBLIGATION TO APPLY GATT PART II "TO THE FULLEST EXTENT POSSIBLE, ETC."

-- THE USG URGES THE GOS TO RECONSIDER ITS INTERNAL LIMITED OFFICIAL USE

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QUANTITATIVE RESTRICTION AND OTHER POLICIES THAT TEND TO DISRUPT IMPORTS OF U.S. SOYBEANS AND THUS TO IMPAIR AN IMPORTANT GOS TRADE CONCESSION TO THE U.S. IN THE MTN, USG HAS CONDITIONED OUR OFFER TO SPAIN ON OLIVES ON A SATISFACTORY SOLUTION TO THE INTERNAL MARKETING QUOTA PROBLEM AND WOULD LIKE TO DISCUSS WITH SPAIN THE POSSIBILITY OF AN AGREED PHASE-OUT OF THAT QUOTA. A SOLUTION IN THE MTN TO THE INTERNAL QUOTA PROBLEM, HOWEVER, WOULD BE WORTH LITTLE TO THE U.S. IF OTHER MEASURES (SUCH AS UNREALISTIC PRICE CEILINGS) DISRUPT IMPORTS.

2. FYI: IN EARLY 1970'S, GOS INSTITUTED CEILING PRICES ON SOYBEAN OIL AND MEAL. THESE PRICES WERE BELOW LEVEL NECESSARY TO GIVE CRUSHERS PROFITABLE RETURN ON INVESTMENT, AND GOS AGREED TO MAKE UP DIFFERENCES THROUGH DIRECT SUBSIDIES TO THE CRUSHERS. IN JUNE 1973, RISING WORLD SOYBEAN PRICES REACHED A LEVEL AT WHICH GOS COULD NO LONGER PAY SUBSIDIES. AS GOS INSISTED ON MAINTAINING CEILING PRICES, SPANISH CRUSHERS COULD NOT AFFORD TO CONTINUE OPERATIONS AND U.S. SOYBEAN EXPORTS TO SPAIN CEASED IN JUNE, PRIOR TO IMPOSITION OF SHORT-LIVED U.S. EXPORT CONTROLS. DURING 1973, GOS SPENT 9 BILLION PESETAS TO

SUBSIDIZE PURCHASE OF SOYBEANS AND SOYBEAN MEAL;
WHICH WAS 2 PERCENT OF TOTAL GOS BUDGET. TO RECOVER THIS
EXPENDITURE, GOS INSTITUTED A SYSTEM OF VARIABLE LEVIES AND
REBATES ON IMPORTS AND PROCESSING OF SOYBEANS OR SOYBEAN
MEAL IN SEPTEMBER 1973. USG MADE SEVERAL REPRESENTATIONS
TO GOS ON SOYBEAN ISSUE, STRESSING IMPORTANCE OF EARLY
GOS DECISION TO ELIMINATE SPAIN'S VARIABLE LEVY/REBATE
SCHEME ON 2 ITEMS BOUND IN GATT. GOS REDUCED LEVY TO
NOMINAL AMOUNT ON MARCH 1, 1974.

3. EMBASSY REQUESTED TO REPORT GOS RESPONSE TO THIS
DEMARCHE. CHRISTOPHER

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